HOW FCC PROCEEDINGS RELATE TO ONE ANOTHER PRICING



Given that the FCC historically has rejected use of forward looking cost models for ratemaking purposes, why are you considering incremental cost standard equivalent to the price? At what point will FCC cost/pricing guidelines abrogate incentives for LECs and CLECs to negotiate interconnection agreements?

- Will threat of arbitrage force access charges and local interconnection rates to converge?
- Will FCC's Sec. 251 cost/pricing guidelines effectively preempt state regulation?
- By adopting detailed cost/pricing guidelines will FCC--rather than market place--dictate how the local phone market is eventually divided up among competing carriers?

HOW FCC PROCEEDINGS RELATE TO ONE ANOTHER COST RECOVERY



What portion of end user loop costs will be recouped through the interstate SLC if FCC prescribes significant reductions in interconnection rates and access charges?

- What other pricing mechanisms might be used to recover universal service costs?
- How should universal subsidies be administered and by whom?
- How will capital formation and service quality be affected if LECs are forced to write off significant portion of their net plant?

1. LOCAL INTERCONNECTION PROCEEDING



Interconnection Proceeding must not undermine exchange access charges and related contributions to universal service IXCs must still pay access charges for use of LEC facilities to originate and terminate interstate calls

Over time access charge and Sec. 251 structures must converge

- Entry into InterLATA market will create powerful incentive for RHCs to negotiate reasonable interconnection agreements quickly
- Rates based on TSLRIC will prove to be arbitrary and confiscatory
- The Act requires that local switching be unbundled from local transport and local loops

2. LONG DISTANCE ENTRY



Other LECs such as GTE, Sprint, Frontier, and SNET, already provide long distance service Long distance entry by RHCs will insure that ongoing access charge reductions are flowed through to residential long distance customers

- Mandatory detariffing and facilities based competition are needed to end tacit collusion in the long distance market
- No need for structural separations or additional safeguards

3. PRICE CAPS (2ND FURTHER NOTICE)



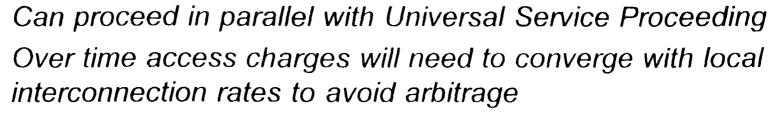
When interconnection proceeding is completed, LEC should be given added flexibility to price competitively

Any pricing flexibility issues not dealt with in 2nd Further Notice can be addressed in Access Reform

4. UNIVERSAL SERVICE PROCEEDING

- SLC increase is key to access reform
 - Increase in SLC will permit decrease in CCLC and RIC over transition period
 - USTA proposed increase to \$6.00
 - AT&T proposed increase to \$7.00
 - Commission initially proposed \$6.00
- Objective is to reduce CCLC and RIC to zero
- Any residual amount of CCLC and RIC after SLC increase will be included in NUSF

5. ACCESS REFORM PROCEEDING



Any remaining issues related to access reform can be completed concurrently with Universal Service Proceeding, e.g., if SLC is increased over 4 year transition period, CCLC and RIC can also be reduced

- Any remaining access reform and pricing flexibility issues can also be handled
- If access charges and interconnection rates set too low, FCC guidelines could eliminate incentives to invest in competitive network facilities

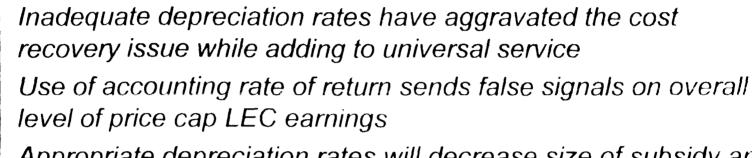
6. PRICE CAPS (4TH FURTHER NOTICE)



Opening local phone markets to competition will increase risks of investing in local network facilities Competition also could suppress productivity growth among price caps LECs

Defer 4th Further Notice until after Local Interconnection, Universal Service, Access Reform, and 2nd Further Notice Price Caps Proceedings are completed

7. DEPRECIATION



Appropriate depreciation rates will decrease size of subsidy and size of NUSF

■ The Commission should deregulate depreciation now

BellSouth's Position on Universal Service

DEFINITION OF UNIVERSAL SERVICE

- BellSouth concurs with the Commission's proposal:
 - 1. voice grade access to the public switched network;
 - 2. touch-tone capability;
 - 3. single party service;
 - 4. access to emergency service (911);
 - 5. access to operator services
 - · Items that should not be included:
 - 1. toll restriction service
 - 2. "privacy" type features such as call block
 - 3. single line buisness service



BELLSOUTH ESTIMATE OF UNIVERSAL SERVICE SUPPORT

1	s S	State and Interstate Total	\$4	1,816M
ا القدد	F F	Revenues Received from Basic Residential Service and SLC	\$2	2,817M
	7	otal Level of Support	\$1	,999M
	lr.	nterstate Contribution	\$1	1,036M
	- Ir	nterstate Contribution includes:		
	\mathbf{c}	Carrier Common Line Charges (CCLC)	\$	712M
1	■ Ir	nterconnection Charge	\$	282M
1	• <i>F</i>	ligh Cost Fund	\$	42M
1	. 7	The first two elements are implicit support to universal service		
1	. 1	he CCLC and IC relate to the support derived from interstate to	II cha	rges

THE NEW UNIVERSAL SERVICE FUND (NUSF)



The Act mandates that universal service support be made explicit

BellSouth recommends a single Federal fund with different components to fund core services and a separate identifiable fund for education.

The decision on whether there should be a State universal fund should be left to the individual States

SIZING OF THE NUSF



The size of the NUSF depends on whether SLC is increased BellSouth recommends that the SLC be increased USTA recommended an increase of \$2.50 to a cap of \$6.00 AT&T recommended that SLC be increased to \$7.00

- Commission initially proposed a \$6.00 SLC
- Drs. Gordon & Taylor show that a modest increase in SLC over several years would not make telephone service unaffordable.
- Any increase in SLC will result in decrease in access charges.
- Interexchnage carriers (IXCs) should have obligation to flow through the entire reduction in their access costs to all their customers
- Bell company entry into in-region long distance market is key to insuring that access charge reductions are permanetly flowed through

COMPONENTS OF THE NEW UNIVERSAL SERVICE FUND (NUSF)



Any residual CCLC and IC amounts not offset by increase in SLC

Long Term Support mechanism

Amount from the present high cost fund

■ DEM weighting amount

Interstate portion of Lifeline and Link-Up programs

BASIS FOR CALCULATING AMOUNT OF SUPPORT



Costs should be based on embedded costs
TSLRIC and BCM are inappropriate
BellSouth recommends that wire center groups
based on access line density be used to determine
the amount of support

■ The size of the SLC should also vary according to wire center groupings.

WHO CONTRIBUTES TO THE NUSF



- The Act requires that "every telecommunications carrier that provides telecommunications services shall contribute, on an equitable and nondiscriminatory basis"
- BellSouth recommends that telecommunications carriers be required to contribute to the Federal fund based on a percentage of their interstate retail revenues
- Percentage would be calculated by determining the percent the total Federal fund amount is of total interstate retail revenues

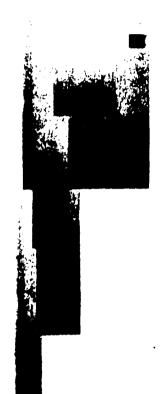
WHO RECEIVES SUPPORT



Any carrier designated as eligible would be entitled to universal service support

The support per residence line would be fully portable (except for recovery tied to underdepreciated plant)

BELLSOUTH'S EDUCATION UNIVERSAL SERVICE PROPOSAL



A "Flexible Discount" credit mechanism would meet requirements of Act

- How flexible discounts would work:
 - FCC establishes fixed fund size based on reliable model of connecting all schools at up to DS-1 speeds (i.e., KickStart Partial Classroom)
 - Fund divided among states using allocation methodology that achieves policy goals
 - Designated entity within each state allots specific dollar amount to each school/library
 - School/library uses funds to purchase available universal telecommunications services that it needs from carrier offering best price and quality.

BELLSOUTH'S EDUCATION UNIVERSAL SERVICE PROPOSAL



- Schools/libraries have flexibility to use funds for services they need
- Funds can be applied to single service or spread over multiple services
- All schools/libraries can take full advantage of available universal support
- Allotment of funds will help unconnected schools/libraries get connected; percentage discounts on services will not
- Pooling of funds can accommodate joint network arrangements;
 distance learning
- Methodology for allocating funds to and within states can address social needs
- Allocating entity can ensure coordination of technology plans within state
- Will promote competition as telecom carriers bid for schools/libraries' business
- Joint Board should adopt flexible discount approach with fixed fund size and use remainder of proceeding to develop details and implementation plan



Service List CC Docket No. 96-45

Deborah Dupont, Federal Staff Chair Federal Communications Commission 2000 L Street, N.W., Suite 257 Washington, D. C., 20036 Paul E. Pederson, State Staff Chair Missouri Public Service Commission P. O. Box 360 Truman State Office Building Jefferson City, MO 65102

Eileen Benner Idaho Public Utilities Commission P. O. Box 83720 Boise, ID. 83720-0074 Charles Bolle South Dakota Public Utilities Commission State Capital, 500 E. Capital Avenue Pierre, SD 57501-5070

Lorraine Kenyon Alaska Public Utilities Commission 1016 West Sixth Avenue Suite 400 Anchorage, AK 99501 Debra M. Kriete Pennsylvania Public Utilities Commission P. O. Box 3265 Harrisburg, PA 17105-3265

Mark Long
Florida Public Service Commission
2540 Shumard Oak Blvd
Gerald Gunter Building
Tallahassee. FL 32399-0850

Samuel Loudenslager Arkansas Public Service Commission P O Box 400 Little Rock, AR 72203-0400

Sandra Makeeff
Iowa Utilities Board
Lucas State Office Building
Des Moines, IA 50319

Philip F. McClelland Pennsylvania Office of Consumer Advocate 1425 Strawberry Square Harrisburg, Pennsylvania 17120 Michael A. McRae D.C. Office of the People's Counsel 1133-15th Street, N.W. Suite 500 Washington, D.C. 20005 Ferry Monroe
New York Public Service Commission
Three Empire Plaza
A bany NY 12223

Mark Nadel Federal Communications Commission 1919 M Street, N W Room 542 Washington, D. C. 20554 Lee Palagyi Washington Utilities and Transportation Commission P O Box 47250 Olympia, WA 98504-7250

Jeanine Poltronieri Federal Communications Commission 2000 L Street, N.W. Suite 257 Washington, D.C. 20036 James Bradford Ramsay National Association of Regulatory Utility Commissioners 1201 Constitution Avenue, N W Washington, D.C. 20423

Jonathan Reel
Federal Communications Commission
2000 L Street. N. W.
Suite 257
Washington, D. C. 20036

Brian Roberts California Public Utilities Commission 505 Van Ness Avenue San Francisco, CA 94102-3298

Gary Seigel Federal Communications Commission 2000 L Street, N.W. Suite 812 Washington, D.C. 20036 Pamela Szymczak
Federal Communications Commission
200 L Street, N.W.
Suite 257
Washington, D.C. 20036

Whiting Thaver
Federal Communications Commission
2000 L Street, N W
Suite 812
Washington, D C 20036

Alex Belinfante Federal Communications Commission 1919 M Street, N W Washington, D C 20554

Larry Povich
Federal Communications Commission
1919 M Street, N W
Washington, D C 20554

The Honorable Reed E. Hundt, Chairman Federal Communications Commission 1919 M Street, N.W. Room 814 Washington, D.C. 20554

The Honorable Rachelle B. Chong, Commissioner Federal Communications Commission 1919 M Street, N. W Room 814 Washington, D.C. 20554 The Honorable Julia Johnson, Commissioner Florida Public Service Commission Capital Circle Office Center 2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

The Honorable Kenneth McClure, Vice Chairman Missouri Public Service Commission 301 W. High Street, Suite 530 Jefferson City, MO 65102

The Honorable Sharon L. Nelson, Chairman Washington Utilities and Transportation Commission P. O. Box 47250 Olympia, WA 98504-7250

The Honorable Laska Schoenfelder, Commissioner South Dakota Public Utilities Commission 500 E. Capital Avenue
Pieree, SD 57501

Martha S. Hogerty Public Counsel for the State of Missouri P O Box 7800 Harry S Truman Building, Room 250 Jefferson City, MO 65102 The Honorable Susan Ness, Commission or Federal Communications Commission 1919 M Street, N W Room 832
Washington, D. C. 20554